

INDEPENDENT INSTITUTE OF SOCIO-ECONOMIC AND POLITICAL STUDIES

(MINSK, BELARUS)

CENTER FOR INTERNATIONAL PRIVATE INTERPRISE

(WASHINGTON, D.C., USA)

Research project

PRINCIPLES OF FREE MARKET ECONOMY IN THE PROGRAMS AND ACTIVITY
OF LEADING ACTORS OF POLITICS AND ECONOMICS OF BELARUS

**ECONOMIC REFORM IN THE REPUBLIC OF BELARUS:
THE STATE, OBJECTIVES AND INSTRUMENTS**

IISEPS - CIPE seminar *"Economic Reforms in Post-communist Society: Experience of Eastern Europe"*, Grodno, August 25-26, 1995)

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MINSK 1995

General characteristic of the economic situation

GDP dropped by 12 percent during January-June of the current year as compared with that in the corresponding period of the last year, consumer prices increased by 271 percent and the rate of official unemployment amounted to 2.3 percent of the employed population.

Debit (36.1 thousand billion rubels) and credit (46.3 thousand billion) indebtedness of enterprises is increasing, with the ownership funds of enterprises amounting to less than 5 percent of credit indebtedness, production is sold irregularly and profitability of the economy fluctuates from 14.6 percent in January to 2.3 percent in April and then again to 13.5 percent in June.

Deficit of the state budget amounted to 3.2 percent of GDP as of July 1, foreign indebtedness of the country hit 1.92 billion dollars and payments totalling more than 160 million dollars are due to be paid to foreign creditors in the near future.

Evaluation of the economic reform

The programme of urgent measures to lift the Belarusian economy from crisis levels included a number of measures which formed 4 blocks:

1. Suppression of inflation and stimulation of production on the basis of more effective financial system and monetary and credit relations as well as reform of pricing;
2. Stabilisation of the Belarusian rubel exchange rate on the basis of levelling the balance of trade and the balance of payments and optimisation of foreign economic activity;
3. Resolution of the decline in production through making it subject to regulation and market transformations;
4. Reform of remuneration of labour, policy of income and employment, and the social security system.

By the end of the first half of 1995 - the termination of the programme - none of the blocks was completed in full measure.

Inflation was reduced to 3-5 percent (5.2 percent in July) a month although this was attained not through effectiveness of the financial system or real reform in pricing, but rather due to monetary leverage, restricted provision of credit and positive parameters of interest rates on deposits of individuals and legal entities.

Similarly, stabilisation of the Belarusian rubel does not have any solid basis, for example, it is not backed by a greater volume of goods or coordinated trade and payments balances of the country.

There have been made practically no steps to improve the financial position of enterprises and to create conditions for them to increase their working capital and sources for self-financing investment programmes.

Privatization and denationalisation programmes failed to be implemented

The problem of hopelessly loss-making enterprises - restructuring production, sanation or liquidation - is not being resolved.

Plans of supporting small and middle-scale business are only being declared.

Reform of taxation is postponed for the future, and there is still no serious concept of its implementation.

Decisions on the reform of remuneration of labour and social security are delayed.

Therefore, we may state that the supreme power does not perfectly understand the sources of the crisis in the Belarusian economy, does not have specific and gradual objectives or tasks of economic development and do not have an idea about a new role of the state on both the macro- and micro-levels. Populism of politicians and non-professionalism of administration employees has led to making no headway and wasting time and resources.

The powers that be do not understand the economic importance of the private initiative and private entrepreneurship and prefer to use archaic methods of administrative management.

Populist practice directed at the most indigent strata of society is already in contradiction with the rules of economic development.

The country needs a programme of real reform.

Objectives of reform

Strategic objectives - suppression of inflation to the internationally acceptable rate of 3-5 percent a year, attainment of stable rate of economic growth equalling 4-6 percent a year, reduction of unemployment to socially acceptable rate, increase of real year income of workers to 5-6 thousand U. S. dollars and coordinated balance of payments of the country.

These strategic objectives should be stipulated in a middle-term programme covering approximately 5 years which would envisage establishment and development of priority branches of the economy, drawing in foreign and domestic investment, creation of civilised market environment based on the dominance of private property and legal competitiveness.

Immediate or short-term objectives - stopping economic decline, optimisation of the financial position of the state (state budget) and enterprises and income of the population (wages may be increased to the equivalent of 150-200 dollars a month in the near future), reduction of the rate of inflation to 1 percent a month, economically grounded stabilisation of the national currency and reduction of the balance of payments deficit to the minimum.

To implement these objectives a programme covering 1-1.5 years should be immediately elaborated and adopted which would include the following major priorities:

1. Creation of legal, taxation, administrative and psychologic environment favouring development of non-state enterprises in the first turn. Introduction of a mechanism of financing and self-financing long term investment programmes through accumulation of financial resources of the population and enterprises through the securities market, including

foreign investors;

2. Restructuring state-owned enterprises into joint-stock companies. The latter should resolve the problem of working capital and self-financing through monetary privatisation and long-term credits within the funds specially allocated for this programme.
3. Restructuring agriculture and enterprises processing agricultural production through provision of land and property shares to those involved into this sphere, as well as through their economic independence from the state.
4. Creation of effectively functioning market institutions, including the commodity, capital, foreign exchange and labour markets.
5. Optimisation of the systems of self-financing and crediting housing construction which is considered as an impulse for economic revival.
6. Development of small and middle-scale business, especially in the sphere of services and production of consumer goods which is to be considered as a means for quick job creation.

The short-term programme should result in a stable macro-economic situation in the country which presupposes:

- civilised capital, commodity, real estate and labour markets in the country;
- non-interference of administrative bodies into economic activity of enterprises of any form of property unless cases stipulated by the law, and their full financial responsibility for the results of such interference;
- market and competitive environment based on private property and entrepreneurship.

Basic instruments:

- tough budget and tax policy presupposing legislative establishment of limits (in percent of GDP) of:
 - a) budget expenses,
 - b) donations (subsidies and credits from the budget),
 - c) deficit of the budget;
- strict limitation of the monetary base growth and the volume of credit issuance, maintenance of positive real interest rates, temporary crediting budget deficit by the National Bank on the basis of the refinancing rate to be followed (at the end of the period) by covering it through issuance of governmental securities, refusal from addressed allocation of credit resources by the National Bank and transition to distribution of credit on the market basis through auctions;
- elaboration and implementation of privatisation objectives envisaging increase of the non-state share to no less than 50 percent of GDP

by 1997 and providing monthly voucher and monetary auctions on selling state property;

- legislative provision of the right of property for land to investors for industrial use as well as to members of collective and state farms with the possibility to transfer (sell) it in future;

- refusal from policy of state protectionism, patronage, privileges and subsidies as well as from administrative interference into activities of state-owned enterprises, independence of their functioning under conditions of market competition equal for economic entities of any form of property;

- strengthening financial and payments discipline at all enterprises without exceptions with their full property responsibility including bankruptcy and liquidation followed by selling by auction;

- transition to a simplified registration of opening new enterprises (firms) with preservation of licencing activities connected with security of the state and health of people;

- complete liberalisation of prices (except prices of natural monopolies);

- liberalisation of domestic and foreign trade (liquidation of quotes, licences, ungrounded tariff and customs restrictions etc);

- reform of the taxation system on the basis of legislative limitation of the maximum of the total of tax dues to 30-35 percent of profit;

- reform of the provision of pensions and making it independent from the state;

- coordination of the growth of remuneration of labour with the growth of profitability of enterprises and productivity of work, with limitation of wages at donated enterprises to its average in the budget sphere;

- decentralisation and use of market mechanisms of financing agriculture, including purchases of grain;

- strengthening civilised supervision of banks, insurance, investment and finance companies and capital as well as the capital and foreign exchange markets on the whole;

- creation of a mechanism of restructuring banks which have considerable bad debts to state-owned sphere and probing into methods of its implementation on the market basis;

- creation of a large investment fund, development of specialised investment banks;

- reform of boards managing state-owned enterprises (supervision councils and estimation indices) and changing employment policy (competitive selection, retraining and probation periods);

- provision of necessary exceptions from the system of export and import customs duties common with Russia on goods which are not produced in Belarus;

- carrying out flexible policy of the exchange rate directed at both creation of foreign exchange reserves amounting to three-month import and maintenance of profitability and competitiveness of Belarusian goods;
- prevention of further increase of indebtedness to Russia for fuel and energy resources, in the first turn, through development of energy-saving technologies and bringing the sphere of consumption of thermal and power energy in order;
- gradual repayment of indebtedness to Russia for gas;
- elaboration and implementation of indices objectively characterizing development of the national economy and activity of economic entities with regard for the rate of inflation, the exchange rate, non-payments and other factors (sufficiency of floating assets, payment ability, profitability, liquidity etc).

Especial role of the monetary and credit system

The monetary and credit system has to achieve the following tasks in the economy:

- a) provision of a stable means of payment to the national economy
- b) accumulation of free monetary resources of enterprises and individuals as sources of investment in new production spheres and technologies;
- c) coordination of monetary flows in the country in accordance with trends in material production and services.

Formation of a valuable monetary and credit system is a very long process, and at present only the banking system has been formed which provides its basis.

Specialised non-bank financial and credit establishments (trust, investment and financial companies) as intermediaries between banks and the sphere of allocating free capitals are either not yet formed or still being formed.

The National Bank has to simultaneously resolve several tasks - formation of a system of monetary and credit establishments, provision of its sound and liquid functioning as well as carrying out certain policy on the macro-level (suppression of inflation and stabilisation of the national currency).

Major parameters of this activity

- minimum statutory fund for newly created Belarusian banks was increased to 2 million ECU, with 5 million ECU for joint and completely foreign banks. Currently operating banks have increase their statutory funds to the stated figure by January 1, 1996;
- the norm of compulsory reserves on attracted funds equals 12 percent;

- the minimum monthly interest rate on time deposits exceeds than the rate of inflation (the real interest rate with regard for inflation equals 3-5 percent) resulting in increase of rubel deposits of individuals which were 9.7 times as large by August as compared with those in January;

- by August credits of the banking system were 2.08 times as large as compared with those in January and totalled 7.9 thousand billion rubels, including those to the national economy - 1.9 times as large (6.1 thousand billion) and to the government - 3.1 times as large (1.09 thousand billion);

- the volume of long-term credit increased by 190 percent during the seven months and its share in credit to the national economy amounted to 9.1 percent;

- the volume of distributed securities grows from month to month (in January-March - by 45 billion rubels, in June - by 150 billion) becoming a reliable and attractive financial instrument;

- the rate of Belarusian rubel against dollar remained practically unchanged during half of a year, and monthly inflation does not exceed 5 percent;

- the foreign exchange market of the country was considerably liberalised and centralised distribution of hard currency was changed for buying and selling it;

- with monetary stabilisation attained, profitability of the banking system decreased to some extent and totalled 489.3 billion rubels as of August 1 (not including the Savings Bank). The main reason for this is increased overdue and bad indebtedness which amounted to 984.6 billion rubels or 8.4 percent of all provided credit as of August 1.

- banks which did not manage to avoid losses are being liquidated;

- gold and hard currency reserves of the country have considerably increased this year.

Therefore, the National Bank has implemented all provisions stipulated by the programme of urgent measures concerning monetary and credit sphere, and if other measures had been implemented, the economic situation in the country would be quite different.

In the near future the National bank intends to take the following measures:

- to form a more effective and competitive banking system including licencing non-bank financial and credit establishments;

- to enhance the role and importance of the securities market in regulation of the monetary and credit market through issuance of Bank's own securities;

- to resolve the problem of overdue and bad indebtedness through creation of a specialised institution (bank) for accounting and realising them;

- to strengthen supervision of activities of financial and credit establishments under the scope of the current legislation.

The main objective of these activities is to create conditions for future integration of the Belarusian economy to the world economic system irrespective of actions of the present authorities on the reform of the national economy.